

April 22, 2010



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Dear Friend,

Many of us have just completed our federal tax returns. The complicated forms and exasperating chore of figuring out income exemptions and deductions are behind us – until next year. And yet, things could get worse – much worse. That is why I have been fighting so hard on this – demanding that Congress and the President act before it is too late. In fact, unless Congress takes quick action, there will be some substantial increases in the taxes we pay in the coming years.

The Joint Committee on Taxation (JCT) has published an [extensive list](#) of tax provisions which will expire if Congress continues in its failure to get its act together. These are some of the tax increases the JCT has identified:

2010

- Taxpayers will not be allowed to deduct their state and local general sales taxes from their federal income tax.
- Businesses will not be able to claim a tax credit for research, experimentation, and development activities.
- Taxpayers will not be able to claim a deduction for qualified tuition and related expenses.
- School teachers will no longer be able to write off books, supplies and other equipment that they purchase with their own money for the classroom.
- Business property on Indian reservations will no longer be depreciated at an accelerated rate.
- Donations of books to public schools (K-12) will no longer be eligible for an enhanced charitable deduction.
- Corporate contributions of computer equipment for educational purposes will no longer be eligible for an enhanced charitable deduction.
- Tax-free distributions from individual retirement plans for charitable purposes will no longer be allowed.
- "Renewal Community" tax incentives will expire.

Another important tax provision set to expire is the first-time homebuyer credit, which will expire at the end of April 2010.

2011

- The marginal income tax rates will increase as follows:
 - 35% bracket will increase to 39.6%
 - 33% bracket will increase to 36%
 - 28% bracket will increase to 31%
 - 25% bracket will increase to 28%
 - 10% and 15% brackets will condense to 15%

- Dividends will no longer be taxed at the capital gains rate for individuals, thereby increasing the double taxation of dividends by as much as 164%.
- The personal capital gains tax will increase to 20% and 10% (from 15% and 5%).
- The child tax credit will decrease from \$1,000 to \$500.
- The standard deduction for couples as a percentage of the standard deduction for singles will decrease from 200% to 167% – restoring the marriage penalty.
- The top end of the 15% marginal income tax bracket for couples as a percentage of the top end for singles will decrease from 200% to 167% – restoring the marriage penalty.
- The “death” tax using the “stepped up” basis will return with a 55% maximum rate (including surtax) and a \$1 million exemption, after years of decreasing “death” tax rates, increasing exemptions, one year using the “carryover” basis to calculate the tax due, and one year of total elimination (2010).
- The dependent care tax credit will decrease from \$3,000 to \$2,400.
- The American Opportunity Tax Credit will expire.
- No longer will individuals be able to receive a credit to purchase energy efficient home appliances.
- The tax credit to hire unemployed veterans and disconnected youth will expire.
- The Work Opportunity Tax Credit, which allows employers to credit up to 40% of the first-year wages of a new employee, will expire.
- The \$400 “Making Work Pay” Tax Credit will expire.

2012

- The adoption tax credit will decrease from \$10,000 to \$5,000.
- The credit for electric drive motorcycles, three-wheeled vehicles, and low-speed vehicles will expire.
- The conversion credit for plug-in electric vehicles will expire.

2013

- The tax credit for cellulosic biofuel producers will expire.
- The tax credit for the production of Indian coal will expire.
- The election to claim the energy credit in lieu of the electricity production credit for wind facilities will expire.
- The special depreciation allowance for cellulosic biofuel plant property will expire.

Also, for those families that use Health Savings Accounts (HSAs) or Flexible Spending Accounts (FSAs) to pay health care expenses with pre-tax dollars, over-the-counter items will no longer be eligible for HSAs and FSAs beginning January 1, 2011 (H.R. 3590, Sect. 9003(f)). That includes:

- Baby aspirin
- Children’s cough syrup
- Bandages
- Cold and chest relief
- Antibiotic ointment and first aid creams
- Anti-flu medication
- Pain relievers
- Cough drops
- Throat lozenges
- Antacids
- Sinus medications
- Allergy medications
- Nasal sprays
- Smoking cessation aids
- Pedialyte
- Calamine lotion
- Sleep aids
- Motion sickness pills

- Contact lens solution

The Joint Committee on Taxation (JCT) estimates that this will result in an additional \$5 billion in taxes.

At the same time, the Congressional Budget Office (CBO) projects that taxpayers will lose \$376 billion on subsidies to keep Fannie Mae and Freddie Mac in business through 2020. Taxpayers will lose \$36 billion to AIG and \$34 billion to Chrysler, GM, and GMAC.

Something is not right with this picture.

With taxpayers paying hand over fist to keep failing businesses solvent, they are also facing imminent tax increases on positive things like medication, certain charitable donations, and energy efficiency. They also face tax increases for being married.

Something is terribly wrong with this picture.


Even with all these forecasts by the JCT and CBO, Congress might not pass a budget this year. While the Leadership may not want to draw attention to the federal government's tax and spending problem, it's unconscionable for Congress to act so recklessly with taxpayer dollars. The Constitution entrusts Congress with the "power of the purse" and to avoid accountability and transparency on this power by failing to put together a budget is an egregious violation of the trust of the American people. It is unprecedented that the House fail to at least hold a vote on a budget and now is not the time to neglect this important responsibility.

We must change this picture.

Sincerely,



Daniel E. Lungren
Member of Congress

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